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FM AMEMBASSY HARARE  
TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 1459  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEHUJA/AMEMBASSY ABUJA 1595  
RUEHAR/AMEMBASSY ACCRA 1462  
RUEHDS/AMEMBASSY ADDIS ABABA 1599  
RUEHBY/AMEMBASSY CANBERRA 0864  
RUEHDK/AMEMBASSY DAKAR 1227  
RUEHKM/AMEMBASSY KAMPALA 1655  
RUEHNR/AMEMBASSY NAIROBI 4061  
RUEHFR/AMEMBASSY PARIS 1424  
RUEHRO/AMEMBASSY ROME 2082  
RUEHBS/USEU BRUSSELS  
RUEHGV/USMISSION GENEVA 0722  
RHEHAAA/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1816  
RHMFISS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEFDIA/DIA WASHDC//DHO-7//  
RUCPDOC/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000413

SIPDIS

SENSITIVE  
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AF/S FOR S. HILL  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN  
TREASURY FOR J. RALYEY AND T. RAND  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 01/12/2016  
TAGS: EFIN ETRD EMIN PGOV ZI  
SUBJECT: GONO TINKERS AS ECONOMIC CRISIS DEEPENS

REF: A. HARARE 080

1B. 2006 HARARE 01361

Classified By: CDA Eric Schultz under Section 1.4 b/d

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Summary  
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11. (C) Reserve Bank of Zimbabwe (RBZ) Governor Gono failed to address the structural problems underlying Zimbabwe's hyperinflation and contracting production in his April 26 interim Monetary Policy Statement (MPS). Gono announced an implicit devaluation of the currency, but it fell far short of the parallel rate and he left the official rate, a major source of corruption for government insiders, untouched.

12. (SBU) Gono also announced a new price for gold and new subsidies for tobacco and maize deliveries, but failed to explain how they would be funded. The measures might provide temporary relief to exporters, but they will also fuel inflation, which Gono disclosed had reached a record 2,200 percent in March, though private sector reports put the rate at about five times higher. At a briefing for diplomats and business leaders, Gono blamed Zimbabwe's economic woes on "illegal" sanctions, lambasted business for failing to hold down prices, and lashed out at the IMF. End Summary.

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An Effective 98 Percent Devaluation  
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¶13. (SBU) Packaged as foreign-exchange funding for a new "Drought Mitigation and Economic Stabilization Fund" (DMESF), Gono announced an exchange rate "accelerator" factor of 60 as a way for exporters, remitters of foreign exchange, individuals, NGOs and embassies to exchange hard currency at an implied rate of Z\$15,000:USD. He denied it was a devaluation and made clear that the official exchange rate remained fixed (since July 2006) at Z\$250:USD. (N.B. The street rate is about Z\$30,000:USD. A government official with USD 100 could sell that on the parallel market for Z\$3 million. Converting that money back into U.S. dollars at the official rate would give the official USD 12,000 -- a tidy profit to say the least.)

¶14. (SBU) But taking with the other hand, Gono reduced the amount of foreign exchange earnings that an exporter may retain from 67.5 percent to 60 percent (N.B. the remaining 40 percent - an effective tax on exports - must be exchanged at the official rate of Z\$250). The Commercial Farmers' Union pointed out that this reduction in the foreign exchange retention immediately undid some of the benefit to exporters of the new implied exchange rate.

¶15. (SBU) Commentators across the sectors added that the multiplier factor for exporters would need constant revision to keep pace with inflation, and questioned whether Gono would indeed review and revise the factor regularly (N.B. especially since an exchange rate monitoring board announced

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at his MPS in July 2006 has yet to be formed). In addition, analysts noted that importers appear to be shut out of the DMESF arrangement and will have to source funding elsewhere, most likely on the parallel market.

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New Support for Tobacco, Maize, Gold  
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¶16. (SBU) Gono announced that tobacco growers would receive a top-up support price of Z\$40,000 per kg for grades fetching US\$1.50 per kg and above. In addition, he increased the Foreign Currency Account (FCA) retention for tobacco growers from 15 percent to 20 percent. To encourage local deliveries of maize and reduce imports, he announced a maize delivery bonus of Z\$1.2 million/t. Hoping to revive the failing gold industry, Gono also adjusted the support price for gold from Z\$16,000 to Z\$350,000 per gram. In a subsequent press release on April 30, he said that all the RBZ's foreign currency arrears (up to five months overdue) to gold producers would be paid "in the very near future." (Comment: Gono failed to explain how the GOZ would pay for these expenditures; most likely it will print more money further fuelling inflation. End Comment).

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Inflation Spikes Amid RBZ Policy Wavering  
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¶17. (SBU) Gono disclosed that the official rate of inflation jumped to a record 2,200 percent in March, up from 1,700 percent the month before. However, although the government dithered for weeks about releasing this figure it is in fact a gross understatement based on a basket of goods many of which have fixed prices at which they are unavailable. The true inflation figure, according to reputable private sector analysts, is between 8,500 and 14,000 percent and increasing fast. Figures from four local private sector sources all show the annualized inflation rate having roughly doubled from January to February, again from February to March, and yet again in April.

¶8. (SBU) If the rate of growth stays the same, Zimbabwe's inflation rate would be six figures by late summer. However, the IMF predicted last year that at some point the inflation rate would begin to grow exponentially. That day may not be far off. Translating these numbers to the average consumer, the official Poverty Datum Line rose 82 percent m-o-m in March to Z\$1.7 million to feed a family of five. (N.B. To put the figure in perspective, a mid-level civil servant takes home about Z\$500,000/month, and the minimum wage for farm workers has just been raised to about Z\$100,000/month.)

¶9. (SBU) Although repeating his claims that inflation was "public enemy number one," Gono at his diplomatic briefing defended the RBZ's "unconventional funding" (i.e. the printing of money) to support the numerous new unbudgeted expenditures, and declared unabashedly that the vehicle Fiscorp Private Limited, set up to ring-fence all quasi-fiscal activities (Ref A), did not conflict with the

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Bank's "anti-inflationary stance."

¶10. (SBU) Gono also half-heartedly tightened the monetary belt by marginally increasing (by 100 percentage points) the overnight accommodation rates for borrowing, and raised statutory reserve requirements slightly. Old Mutual Asset Managers in its commentary on the MPS, however dismissed the move, noting that these increases had little tightening effect as interest rates remained deeply negative.

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Playing the Blame Game  
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¶11. (SBU) In a switch from his January 2007 MPS and his private comments to the Ambassador (Ref B) when he backed away from the sanctions argument and blamed the country's economic plight on the GOZ's own policies and actions, the Governor lashed out at "illegal" international sanctions in his briefing to diplomats. He attacked the Zimbabwean business community, as well, for failing to hold down prices. Leaving no potential rescuer unspared in his contempt, he berated the IMF for the public criticism of GOZ economic policies in two recently released Working Papers, saying the IMF had "crossed the line of civility."

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Comment  
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¶12. (C) There is no whiff of a shift by the GOZ toward the market-based reforms that would blow life back into the economy. Moreover, Gono's political position has reportedly eroded in recent weeks, making him an ever more unlikely advocate for reform. In fact, we would argue that maintaining the official exchange rate was the key element of the MPS. By preserving the absurdly overvalued official exchange rate Gono ingratiated himself with government insiders by keeping in place a coveted perk that is wreaking havoc on the economy as a whole.

SCHULTZ